job for Canada. Rather, it must be thought of as an exchange and like any form of trade both parties will benefit.

As a company grows overseas it also often expands its activities at home. Evidence from the U.S. shows that expanded overseas activity by a country's multinationals leads to more employment in the home country as well.[11] While employment at U.S. affiliates outside of the U.S. expanded by over 2 million between 1997 and 2004, employment at their U.S. parents increased by 1.5 million. International growth also allows the company to spread its R&D costs over greater volume of sales and thus invest more in R&D. It exposes the company to the best in the world forcing the company to be more innovative and transfers some of that knowledge back to the domestic economy. Canadian multinationals, for example, have been shown to be more productive than are purely domestic companies.[12] And, Canadian multinationals repatriate profits back to their parent in Canada. In 2006, Canadian direct investments abroad generated $30.6 billion that was returned to Canada, a nearly three-fold increase from ten years ago.

It is also important that Canadian firms, both large and small, link into global value chains. The extent to which this is already occurring is discussed in the manufacturing and services sections of this report, however, the benefits are clear. By sourcing intermediate inputs or services abroad, Canadian operations can become more efficient and survive, if not expand, in an increasingly competitive global environment. Amiti and Wei (2006), for example, find that services offshoring for the U.S. manufacturing sector contributed to 11% of productivity gains while having almost no impact on employment levels. A cost benefit analysis by McKinsey Global Institute (2003) found that the host country gains $1.12 to $1.14 for every dollar of activity offshored.

Thus, it is important that companies located in Canada not only have access to foreign markets in which they can sell their goods and services, but also be able to import intermediate inputs and services.

The Driving Forces

Understanding what is driving the globalization of value chains will help us to understand why global value chains are taking hold at this particular time; why there is an increased fear now that production will move to low-wage countries even though there have always been significant differences in cost structures among countries, and; whether or not these trends will continue. Three forces appear to be driving the growth in global value chains: 1) Declining costs of transportation; 2) Improvements in information and communication technologies (ICTs); 3) Reduced barriers to international trade and investment and the adoption of market oriented economic policies. We will expand on each of these themes in turn.

Declining Costs of Transportation

Declining costs of transportation allow goods or services to be transported greater distances without losing competitiveness relative to those produced locally. Some of the benefits of lower-cost production are lost in the cost of transporting intermediate products or final outputs to where they will be consumed. Transportation costs play an important role in agglomeration economies – why producers of intermediate inputs have a tendency to locate in close proximity to the user of those inputs. The automotive sector in Southern Ontario and the mid-Western/North-Eastern U.S. is a prime example. As transportation costs decline, all else being equal, there is less incentive to locate in close proximity to either suppliers or consumers and thus take advantage of the strengths of more distant locations.

For Canada, transportation and warehousing costs now account for 6.5% of the cost of inputs used to

11 For a reveiew of this evdince see Mankiw and Swagel (2006)

12 Baldwin and Gu (2005)